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SENSITIVE

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SUBJECT: BOTSWANA: U.S. COMPANY MAY PROVIDE TEMPORARY POWER
SOLUTIONS

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SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET DISTRIBUTION.
REPORT CONTAINS PROPRIETARY BUSINESS INFORMATION.

¶1. (SBU) SUMMARY: DCM and Pol/Econ Chief met February 19 with Paul Marcroft of Florida-based APR Energy regarding the company's proposed short-term contract to generate 70 megawatts of electricity for the Botswana Power Corporation (BPC). The contract, which is not yet signed and has been under discussion since October 2008, would last for 15 months with possible renewal up to 3 years. Under the proposal, APR could deliver equipment and begin generating 35 MW for BPC as soon as October 2009. The U.S. company is hopeful that Botswana will continue with the agreement despite the drop in regional electricity demand due to the global economic crisis, which has caused reductions in power usage especially in the mining and manufacturing sectors. APR's lawyers and the BPC are still working out details regarding taxation for the deal. END SUMMARY.

¶2. (SBU) Paul Marcroft, Director of Business Development for APR Energy, a small U.S. company based in Jacksonville, Florida, told Embassy officers February 19 that his company had been awarded a tender by Botswana's electricity utility BPC in October 2008. Under the terms of the agreement, APR is to provide an array of industrial generators that would supply 70 MW of power to BPC on a short-term basis. The contract duration would be for 15 months, renewable up to a period of three years. APR Energy specializes in short-term power projects and reports that they can typically deploy equipment and have it operational in 30-60 days. They currently have similar projects in Peru, Costa Rica, and Argentina, and are trying to develop additional business in the African market. Botswana sought out short-term generating capacity as it realized the country would be hit hard in 2009 and beyond as regional electricity demand continued to outstrip supply, and Botswana and other customers of South Africa's Eskom began to suffer rolling power cuts. Though Botswana has two power projects underway (the Morupule B expansion of an existing coal-fired generating station near Palapye and the prospective Mmamabula project) which if completed will make the country self-sufficient and potentially a net electricity exporter, neither project is expected to be operational before 2012. Botswana faces an energy deficit in the next 2-4 years, especially as South Africa's power company Eskom is scheduled to reduce its supply to Botswana by 100 MW in 2010.

¶3. (SBU) APR's proposal for Botswana consists of two phases. Initially, the company would provide 35 MW of power, and

then in a second phase several months later, add additional capacity to generate a total of 70 MW. To achieve this, APR deploys as many 1-2 MW generators as are needed, installs them quickly, and then they are fueled and operated by the customer. The project in Botswana will be located approximately 20 kilometers east of Francistown, adjacent to the Tati nickel mine. At the end of the contract, APR would simply remove its generators and redeploy them to another location.

¶4. (SBU) Marcroft indicated that APR is eager to finalize and sign its Botswana contract. Most of the terms were agreed upon in late 2008, and BPC initially wanted APR to begin generating by April 1, 2009. However, in late 2008 BPC put the brakes on negotiations, and explained to APR that given the global economic crisis and reduced electricity demand in the region, the utility would need to re-think the idea of procuring temporary generating capacity. According to Marcroft, BPC then gathered data about projected power usage, the mining situation, and other factors to attempt to justify the proposed expense to its parent ministry, the Ministry of Minerals, Energy, and Water Affairs. After that review, BPC told APR that they would like to go forward with the deal, and that under the agreement APR should begin phase one, generation of 35 MW, in October 2009, and by the end of 2009 be at the full 70 MW capacity.

¶5. (SBU) APR had hoped that BPC would be ready to sign the agreement this month. However, BPC says that they will not be able to sign until May 1. APR is hoping to use pricing incentives to get BPC to sign sooner. Marcroft reports that the current deal is for a fixed rate of US\$.03/kwh for the first year, with incremental increases if the contract is extended. However, APR says that it has told BPC if the

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contract on offer is not signed by BPC by March, it will raise the pricing structure by 5% in April and by 10% in May. The largest remaining issue with the deal is taxation. BPC's tender indicated that the utility would be responsible for all taxes, but they have not yet worked that out with the Botswana taxation authority BURS. Lawyers for APR and BPC have drafted a letter to BURS this week seeking guidance on what taxation might be applicable to this deal. They are then hoping to get an exemption, either from BURS or from the Ministry of Finance. APR has no plans to incorporate or hire staff in Botswana. Their agreement with BPC will be essentially only for short-term provision of equipment, with some installation and maintenance. All equipment will be re-exported at the expiry of the deal.

¶6. (SBU) COMMENT: The power crisis in Southern Africa has been delayed but certainly not averted by the global recession. It is good to know that the GOB is pursuing options which might allow Botswana to minimize or even avoid the power shortages it began to experience in 2008. Lack of reliable power supply has the potential to derail new investments and economic development projects, so Botswana is wise to try to "bridge the gap" between its past reliance on Eskom and possible future self-sufficiency in 2012 and beyond. Post will keep in touch with APR and try to support the entry of a new U.S. company into the Botswana market, especially one which will fill such a critical regional need.

END COMMENT.

NOLAN